



Innovation for the Public Good: Incentives and Responsiveness

Two Specific Ways to Better Align the Incentives for Innovation in Government

Vicki Sellick November 2011

Many government agencies find innovating to address social issues unnatural. Even where leaders signal the importance of looking for radical alternatives, incentives in government can discourage rather than promote innovation.

All too often, agencies continue to reward doing things the safe way, even if that means that better and more efficient methods are never identified.

Some agencies are working hard to better align the incentives for innovation on social issues by shifting funding from activity-based payments to paying for outcomes. Others have created mechanisms to compare programs, shifting money quickly from traditional to more effective new approaches. We explore both below.

Using incentives to nurture innovations

Agencies can incentivize new approaches and innovations by ensuring program funding is linked to carefully defined outcomes like reduced recidivism or improved literacy, rather than merely funding activities.

In the United Kingdom the government's "Work Programme" outsources job brokerage and employability support to a small number of providers. Providers are paid largely for outcomes, not activity. In this case the outcome is finding a participant sustained employment for 26 weeks or more.

Furthermore, incentives are weighted to ensure the providers help those most in need. For example, the payment for helping a recent graduate with good work experience is relatively modest but there's a much more generous fee for successfully helping someone who is long-term unemployed and has an addiction problem.

The fee is paid regardless of what the provider actually did to get someone back to work. Structuring incentives in this way frees providers up to use all their knowhow to deliver the most effective programs. If one approach doesn't work, the provider must change tack or lose out.

Consequently, providers therefore rush to copy what is working and drop what doesn't—and innovation flourishes.

In the United States so-called pay-for-success bonds are likewise linking funding to outcomes. Massachusetts and New York City are developing America's first pay-for-success projects focused on reducing youth recidivism and homelessness. Payment is again based only on social outcomes, not activity, which will allow external organizations considerable freedom in how they work.

Responding to performance data and user demand

Customer choice drives competitive markets. Where markets work well, consumers choose better products over poorer ones, encouraging innovation. But in the public sector, where government agencies are often the sole provider of services, this relationship between customers, quality of service, and service choices is muddled.

Agencies therefore need reliable performance data and good user feedback to assess different approaches, and they need to be willing to swiftly move resources from underperforming interventions to more effective ones.

In the United Kingdom's Greater Manchester region in 2010, 15 local agencies delivered more than 200 interventions to reduce recidivism. After gathering extensive user feedback and performance data, agency leaders agreed to continue with just the five most effective interventions in 2011, sharing the costs and the savings between them. This is a bold move because Manchester's agencies, like so many in the public sector, find it difficult to quickly stop poor-performing programs and instead move to trialing potentially more effective solutions. Washington state's "Priorities of Government" initiative uses a similar approach to direct resources to the most effective programs. The state has set 10 goals that encapsulate what government is working to achieve for citizens. Each goal has clear metrics, such as reduction in the rate of tobacco use. For each of these goals, the state identifies which strategies are likely to be successful and cost effective, and then uses that information to guide funding decisions.

As a result innovative and effective approaches have often received support at the expense of traditional approaches.

Aligning incentives in agencies to encourage innovations is the fourth of our “ingredients” for creating a culture of innovation. Next week, we’ll consider the fifth and final element: innovation plans.

This is the latest installment of a weekly column on government innovation produced by CAP’s Doing What Works team in partnership with the Bellwether Education Partners and the Young Foundation, as part of the “Innovation for the Public Good” series supported by the Rockefeller Foundation.

Vicki Sellick is a program leader at the Young Foundation in London.